

# CRAIN'S

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## NEW YORK BUSINESS

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### **Shunned borrowers find online lender**

*On Deck Capital makes loans of up to \$100,000; high rates*

Steve Weinstein  
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Like most clothing designers, Montagerie, a two-person garment district firm, needs cash to carry it through the fallow periods between making samples and creating finished products. Having been rebuffed by a commercial bank, co-owner Nancy Ekbar turned to a new lender with a completely different model to evaluate startup businesses like hers.

On Deck Capital, which operates completely online, gave Montagerie a one-year loan based on the company's cash flow—in contrast to banks, which require the owners' tax returns, credit history and business plan. The loan, repaid in daily micro-installments of a few dollars, works well for the tiny women's fashion house, which experiences dry spells in spring and summer.

“The interesting thing about On Deck is that they actually looked at our sales last year and this year and how we were growing,” Ms. Ekbar says. “Banks looked at our credit report, period. Usually when you're an entrepreneur, you don't have great credit.”

#### **A focus on cash flow**

On Deck Capital doles out loans of up to \$100,000 using proprietary software from a team of financial-services and payment-processing developers. Founder Mitch Jacobs' own background reflects On Deck's emphasis on cash flow. As a Dartmouth undergrad in the early '90s, he developed a system that let students turn their college IDs into charge cards at off-campus businesses.

He launched On Deck in May with more than \$100 million in loan funds and \$10 million in operating expenses from venture-fund sources including former American Express Chief Executive James Robinson III, Village Ventures and Sun Microsystems founder Vinod Khosia. On track to issue 1,000 loans totaling more than \$20 million this year, On Deck uses the tagline “Wall Street to Main Street” to reflect Mr. Jacobs' big-time funding sources and small-scale borrowers.

Mr. Jacobs and a handful of employees process loan applications and payments out of a nondescript office in Yorkville and two tiny origination centers in Kansas and Virginia. They promise an answer within a week for applicants, who usually come across On Deck during an

online search.

Mom-and-pop enterprises have often had a hard time getting loans, but in the wake of the financial crisis, it's likely to become even harder. The Association for Enterprise Opportunity, an umbrella group for regional microlenders, estimates that 10 million entrepreneurs nationwide don't qualify for traditional bank loans.

“With the housing crisis and credit crunch,” says a spokeswoman, “a lot of business owners are finding that even if they would have been accepted for a loan from a bank last year, now they're not.”

But Bob Seiwart, who heads the American Bankers Association's Center for Commercial Lending and Business Banking, believes that banks' personal service and counseling trump the services of a quickie lender like On Deck. “You don't get an expert in your business from an online lender,” Mr. Seiwart says. “You can't talk to software.”

With rates ranging from 18% to 36% annually (depending on cash flow for the six months prior to the loan application), On Deck's interest rates are higher than banks' but lower than rates for factoring, receivables financing or payday lending, which can go as high as 200%.

### **Easy payments**

Mr. Jacobs sees enterprising immigrants like Magid Amin as prime customers. Mr. Amin is a former limo driver from Egypt who is now trying to establish a Bay Ridge-based Expedia-type travel site, Flyover.com. Every day, On Deck deducts \$50 from his bank account to repay his third loan, for \$19,000. “You don't have to write checks,” Mr. Amin says. “It's easy and painless.”

But On Deck does face the risk of borrowers defaulting, a risk that is rising as the economy sours. “Someone like On Deck can't do a lot of due diligence,” says Norman Brodsky, Brooklyn author of *The Knack: How Street-Smart Entrepreneurs Learn to Handle Whatever Comes*. “Software doesn't tell the whole story.”

Eventually, Mr. Jacobs wants to work with banks as a clearinghouse or even to sell them his software. For now, however, he's content to seek out businesses—or whole categories—neglected or rejected by traditional commercial lenders. “Banks are giving us opportunities,” he says, “because these are businesses that should be financed.”

### **AT A GLANCE**

#### **ON DECK CAPITAL**

**FOUNDED** May 2008

**LOCATION** Online at [www.ondeckcapital.com](http://www.ondeckcapital.com)

**BUSINESS MODEL** Makes small loans based on proprietary software to entrepreneurs shunned by banks

**LOAN VOLUME** Projected to be \$20 million in 2008 ◆